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National Association of Purchasing Management

Report On Business

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Economic Growth Slows

Purchasing Index Lower

Employment Declines Again

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

December Report

The economy continued to grow in December, but at a slower rate compared to the previous three months, say the nation's purchasing managers in their latest **Report on Business.** After an improvement in November, new orders fell in December. Considering the normal seasonal decline in December, production was also off, but by a lesser amount. The speed at which vendors deliver remained about the same and inventories were basically unchanged. For the eleventh consecutive month, no shortages were reported. The decline in employment continued. Once again, more purchasers reported paying lower, rather than higher, prices. This is the thirteenth consecutive month that this has occurred.

Traditionally, the industrial economy slows in December, so what we are seeing is not unusual. However, the good fourth quarter and the year were a pleasant surprise. The continued low level of price increases also indicates that inflation is not on the horizon," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** declined to 51.1% in December from 53.3% in November. While this is the first drop in three months, it is the fourth consecutive month that this key economic indicator has registered over 50%. A reading below 50% indicates that the economy is generally in a declining phase; above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The decline in employment is one of the darker spots in the economy. The 95% of members reporting the same or lower employment in December is the highest percentage since November 1982 (96%). The 5% reporting higher employment is also the lowest figure reported since November 1982 (4%).

Employment %	Higher	Same	Lower	Net Differ.
December	5	67	28	−23
November	7	68	25	−18
October	11	64	25	−14

Buying Policy

For production materials, the percentage of members reporting lead times of 60 days or less increased to 91%. This is the largest percentage since these statistics were first surveyed (May 1955) and confirms the relative ease in obtaining materials as well as the lack of shortages. The 91% of members reporting lead times of 30 days or less for maintenance, repair and operating (MRO) supplies has been about the same for four months; it is close to the historic high level reached in September 1985 (92%). However, lead times for capital expenditures in the six months and longer category expanded to 51% compared to 48% reported in October and November.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
December	20	44	27	6	3
November	17	48	22	9	4
October	17	45	24	8	6
MRO Supplies %					
December	45	46	4	3	2
November	46	44	8	1	1
October	41	49	5	3	2
Capital Expenditures %					
December	18	2	6	23	51
November	16	4	5	27	48
October	20	5	5	22	48

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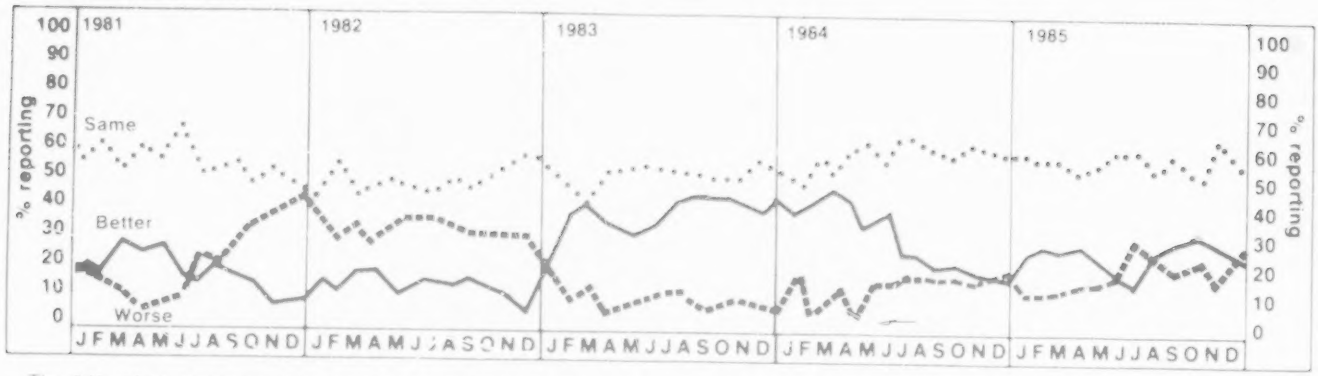
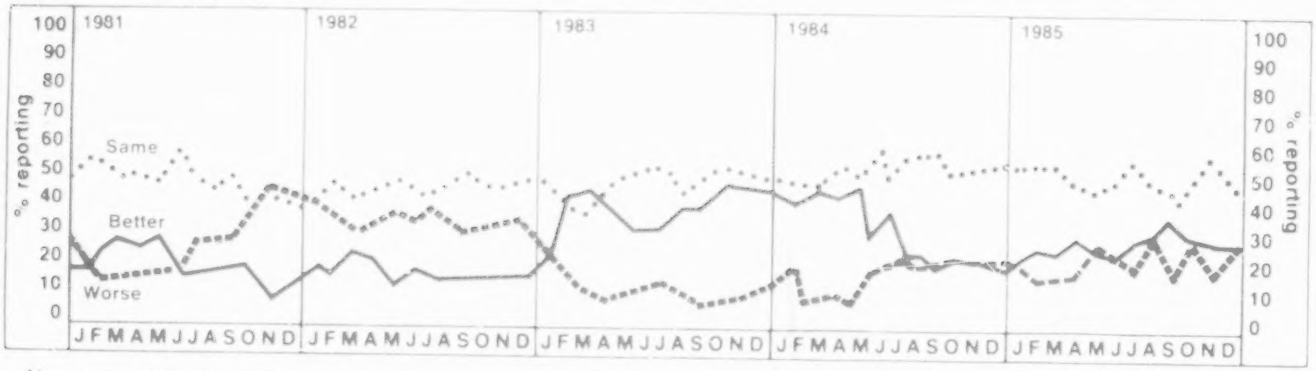
Production



The 24% of members reporting production as being worse in December was up nine points from November, and contributed to the overall lower production (net) figure. Most of the decline can be explained by the normal seasonal slowdown in many industries.

Production %	Better	Same	Worse	Net
December	21	55	24	− 3
November	23	62	15	+ 8
October	26	54	20	+ 6

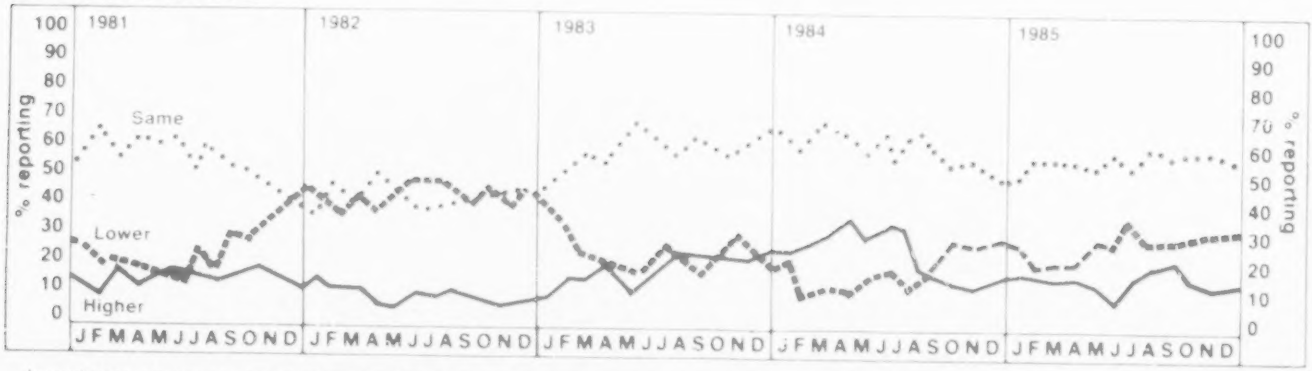
New Orders



New orders fell in December after an improvement in November. Members reporting better new orders in December reached 26%, the same as in November, but the 28% reporting worse new orders was a twelve-point increase. Nevertheless, seasonal adjustments could explain most of this change.

New Orders %	Better	Same	Worse	Net
December	26	46	28	− 2
November	26	58	16	+10
October	27	46	27	0

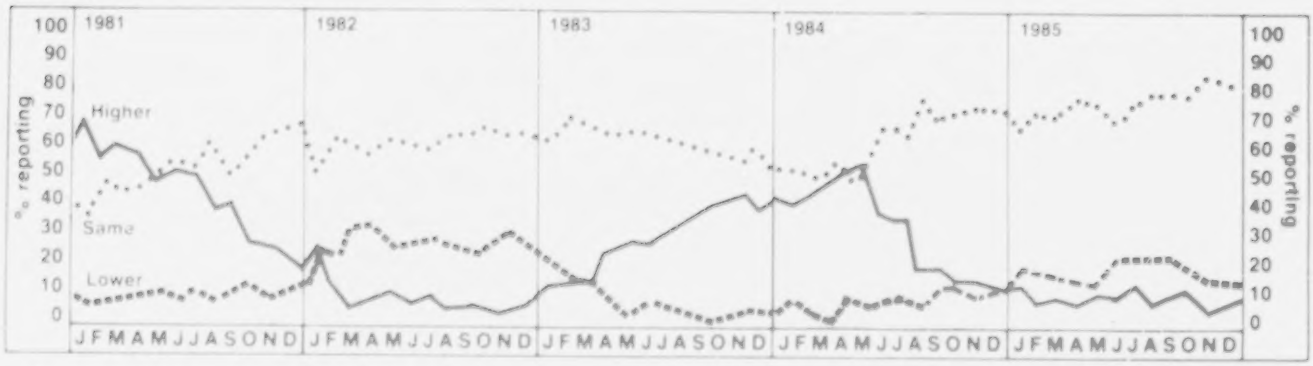
Inventories



Inventories continued to decline at about the same pace as they did last month. Members who indicated their inventory levels were the same or lower totaled 87%, which is only a one-point drop from November's total of 88%.

Inventories %	Higher	Same	Lower	Net
December	13	57	30	−17
November	12	59	29	−17
October	14	59	27	−13

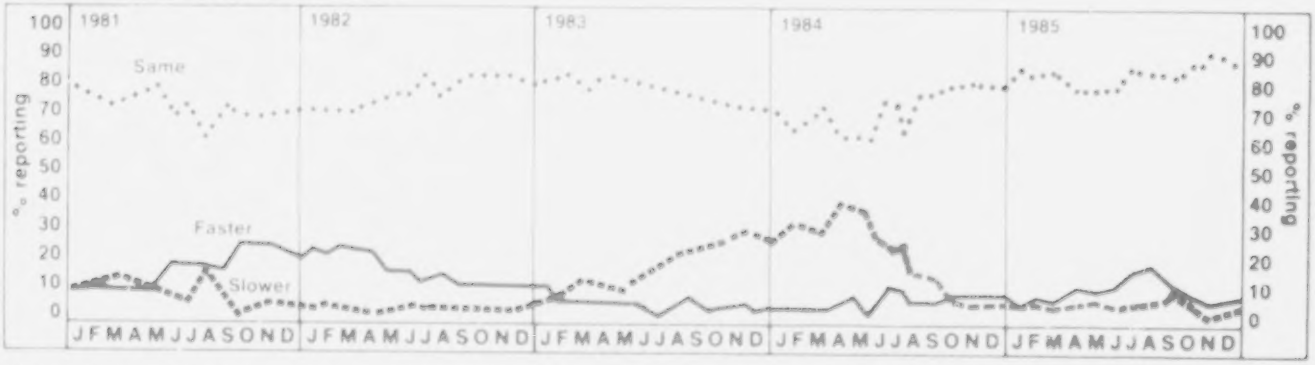
Prices



A continuing bright spot in the economy has been the infrequent and low level of price increases. December marks the thirteenth month that more purchasing managers reported lower compared to higher prices. However, there are some signs that the pace of price decreases is slowing.

Prices %	Higher	Same	Lower	Net
December	8	80	12	− 4
November	2	85	13	−11
October	8	76	16	− 8

Vendor Deliveries



Vendor deliveries remained virtually unchanged in December. Purchasing managers reported that 92% of vendor deliveries were the same or slower compared to 94% in November.

Vendor Deliveries %	Faster	Same	Slower	Net
December	8	87	5	+ 3
November	6	92	2	+ 4
October	7	87	6	+ 1

Specific Commodity Changes

December marked the eleventh consecutive month in which no shortages were reported. Both fuel oil and diesel fuel were reported up in price for the second consecutive month. Prior to November, fuel oil prices were reported lower for twelve consecutive months. Gasoline was reported lower in price for the first time since July 1985. For the eleventh consecutive month, corrugated shipping containers were reported lower in price. Caustic soda, used to produce the paper from which corrugated containers are made, was reported lower in price for the fifth consecutive month.

UP in Price: Fuel oil and diesel fuel.

DOWN in Price: Corrugated shipping cartons, caustic soda (used heavily in petroleum refining and paper making), gasoline.

In SHORT Supply: None.

Note: The next issue of the *Report on Business* will be available Feb. 3, 1986.

Commodity Reports

Non Ferrous Metals

Prepared by the N.A.P.M. Non Ferrous Metals Committee; chairman, George Milne, C.P.M., Delta Faucet Co., Indianapolis, IN.

Zinc

Despite strong demand in the second half of 1985, over capacity in the zinc industry (as well as the recent tin crisis) has depressed prices, including European and LME. Minor production cutbacks have had no immediate effect. Merchants importing cheaper metal had forced North American producers to reduce or discount their list prices.

Between June and November 1985, North American producers were reluctant to lower published prices until forced by obvious market indicators such as the Mint bids. The producer price during this period plummeted 34% from 47¢ to 35¢ per pound, with discounted selling prices two to three cents lower per pound. Heavy discounting threatens North American producer price credibility and pricing mechanisms.

Beyond 1985, little relief is predicted for the zinc industry. (Victoria Radick, National Steel Corp., Pittsburgh, PA)

Lead

In the midst of the heaviest demand period of the year (fall and early winter), lead is being sold at $.185 to $.195 per pound. Primary and secondary lead smelters are operating at close to a break-even point.

Lead production, both in the United States and in the rest of the world, continues to meet and exceed demand. Since lead is a by-product of zinc, copper, and silver in many mines, supply will probably remain plentiful. Secondary smelters, which supply about one-half of the lead consumed in the United States, provide a valuable service by recycling spent lead acid batteries and other scrap lead wastes. Their continued operation is an environmental necessity.

Lead will remain plentiful and the price will remain at current low levels. (T.A. Parker, Exide Corporation, Horsham, PA)

Copper

During the past six months, copper has been in plentiful supply, in spite of steadily declining worldwide inventories. Prices have remained extremely stable due to a lack of speculation, poor consumption, and concerns over the impact of the tin crisis.

During the first half of 1986, higher prices are anticipated, due to increased consumption, further weakening of the dollar, stable or reduced production, and possible contract expiration and work stoppages in the U.S. and Canada. Producers will demand significant concessions to allow them to compete with non-unionized and foreign sources with presumed cheaper labor costs.

Barring major disruption of supply, inventories and prices should remain fairly stable, with comex prices within the $.60-$.66 per pound range. (Fred C. Burke, REA Magnet Wire Co., Ft. Wayne, IN)

Cadmium

Cadmium pricing has not changed since the 1985 mid-year report. Domestic producer prices remain at $1.00 per pound. New York trader prices are now 85 to 90 cents per pound. Some minor price increases may occur early next year.

Cut-backs due to zinc over-production, should bring supply and demand for cadmium into relative balance, creating some firming of prices. (Cadmium is a by-product of zinc production.) Low priced Chinese ingots are still available in quantity to the merchant trade, which should drive prices down. This supply may exist for some time.

Sweden continues to exempt certain cadmium products from the ban on imports and use. The exemption, due to expire the end of 1985, was extended for another two years on certain products. This again should influence other European nations to take a hard look at their proposed future bans. (W.P. Brandes, Kraft Chemical Co., Melrose Park, IL)

Wood Products

Prepared by the N.A.P.M. Wood Products Committee; chairman, Roy Carter, C.P.M., Roseburg Forest Products, Roseburg, OR.

Forest products inventories are below usual levels for this time of year, and there are no signs of normal year-end purchases aimed at building inventories for substantial spring sales. Prices will drift, with potential for a rapid advance if inventories erode (particularly if construction expands). Forest products sales in 1986 should parallel those of 1985.

Northeast

Due to excellent weather, eastern spruce has increased in price. Plywood prices cover a wide range; southern pine prices remain stable, however.

The projected drop in residential construction may suggest a slowdown for the lumber industry early in 1986. Many buyers (hesitant to increase inventories) are buying only for replacements. (Veronica Tufts, Mullen Lumber Co., Sudbury, MA)

Hardwood dimension stock is in plentiful supply. The furniture industry remains slow; mills are soliciting business in the cabinet industry. Pricing is competitive and quality is good. Long term supply, however, may be questionable, particularly when the furniture sector rebounds.

Overseas markets continue to threaten domestic suppliers via extremely competitive pricing, very good quality and dependable, but sometimes extended, deliveries. (Stephen Bresler, Riviera Cabinets, Chester, NY)

Southeast

Most hardwood species have been stable for the past six months with the exception of oak and ash, which have fluctuated.

A slow furniture industry during the past six months has resulted in low mill inventories of hardwoods. A number of mills have closed down permanently due to financial problems. Improved furniture production combined with wet weather conditions could create serious supply problems and escalating hardwood prices during the next several months. (Roy Walters, Jr. Hendredon Furniture Industries, Morganton, NC)

The market for wood products in general is depressed. Lumber is particularly hard hit due to Canadian imports, which have captured a good portion of the soft wood construction market. Prices are soft and availability good. (M.C. Farrell, Masonite Corp., Laurel, MS)

Pacific Coast

Lumber prices and availability should remain constant through the winter months. The market may be reasonably aggressive in the spring, as the number of housing starts should be comparable to that of 1985.

Canadian lumber will continue to flow into the states, which is hard on the producers. Wafer board is continuing to eat away at the sheathing market, with more new plants announced for 1986. (Samuel Craven, Pope & Talbot, Portland, OR)

Great Lakes

It has been a season of very good sales, though prices remain on the low side, as do profit margins. Our industrial business is showing signs of continued improvement. Dealer and retail yard inventories remain lean. Forest products, currently a good value, should remain so for the next few months. (Marcus Hanna, Dougherty Lumber Co., Cleveland, OH)